

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application to change) DOCKET NO. 920385-TL
depreciation rates and) ORDER NO. PSC-92-1193-PHO-TL
schedules effective 1/1/92 by) ISSUED: 10/21/92
BELLSOUTH TELECOMMUNICATIONS,)
INC. d/b/a SOUTHERN BELL)
TELEPHONE AND TELEGRAPH)
COMPANY.)
_____)

Pursuant to Notice, a Prehearing Conference was held on October 7, 1992, in Tallahassee, Florida, before Commissioner J. Terry Deason, as Prehearing Officer.

APPEARANCES:

R. DOUGLAS LACKEY, Esquire, and NANCY B. WHITE, Esquire,
4300 Southern Bell Center, 675 West Peachtree Street,
N.E., Atlanta, GA 30375
On behalf of BellSouth Telecommunications, Inc. d/b/a
Southern Bell Telephone and Telegraph Company.

PETER M. DUNBAR, Esquire, Haben, Culpepper, Dunbar &
French, P.A., Post Office Box 10095, Tallahassee, FL
32302
On behalf of Florida Cable Television Association.

RICHARD D. MELSON, Esquire, Hopping, Boyd, Green & Sams,
Post Office Box 6526, Tallahassee, FL 32314, and MICHAEL
J. HENRY, MCI Center, Three Ravinia Drive, Atlanta, GA
30346
On behalf of MCI Telecommunications Corp.

CHARLES J. BECK, Esquire, Office of Public Counsel, c/o
The Florida Legislature, 111 West Madison Street, Room
812, Tallahassee, FL 32399-1400
On behalf of the Citizens of the State of Florida.

PATRICIA A. KURLIN, Esquire, Florida Public Service
Commission, 101 E. Gaines Street, Tallahassee, Florida
32399-0863
On behalf of the Commission Staff.

PRENTICE P. PRUITT, Esquire, Florida Public Service
Commission, 101 E. Gaines Street, Tallahassee, Florida
32399-0862
On behalf of the Commissioners.

DOCUMENT NUMBER-DATE

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PREHEARING ORDER

I. CASE BACKGROUND

On May 1, 1992, BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company (Southern Bell or the Company) filed its 1992 depreciation study pursuant to Rule 25-4.0175, Florida Administrative Code. The Company requests that the Commission prescribe new depreciation rates and capital recovery schedules as proposed in the depreciation study, effective January 1, 1992.

By Order No. PSC-92-0360-PCO-TL, issued May 14, 1992, we acknowledged the intervention of the Office of Public Counsel (OPC) in this docket. In addition, intervention was sought by and granted to the Florida Cable Television Association (FCTA), and MCI Telecommunications Corporation (MCI).

The evidentiary hearing is scheduled for October 26-27, 1992, in Tallahassee. At the Prehearing Conference on October 7, 1992, the procedure to govern the hearing was established.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 364.183(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section

364.183, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 364.183, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has

been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Commission Clerk's confidential files.

III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

IV. ORDER OF WITNESSES

<u>WITNESS</u>	<u>APPEARING FOR</u>	<u>ISSUES</u>
Jerry L. Wilson <u>Direct</u>	So. Bell	1, 1(a), 2, 3, 5, 6, and 6(a).
H. E. Gray, Jr.	So. Bell	3, 4, and 5(a)
Ralph C. Lenz	So. Bell	5(e), 5(f), and 5(g)
Steven L. Barreca <u>Direct</u>	So. Bell	5, 5(b), 5(c), 5(d), 5(e), 5(f), and 5(g).
William E. Taylor	So. Bell	1, 1(a), and 5(a)
James Currin	OPC	All Issues

<u>WITNESS</u>	<u>APPEARING FOR</u>	<u>ISSUES</u>
Earl Poucher <u>Direct</u>	OPC	All Issues
Jerry L. Wilson <u>Rebuttal</u>	So. Bell	1, 5, 5c
Steven L. Barreca <u>Rebuttal</u>	So. Bell	5, 5d, 5e, 5f, 5g
Earl Poucher <u>Rebuttal</u>	OPC	All Issues

V. BASIC POSITIONS

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

SOUTHERN BELL'S BASIC POSITION: Every three years Southern Bell is required to prepare and file an updated analysis of its depreciation rates and schedules. Southern Bell last filed such a study in 1989 and consequently a new study has been prepared for 1992. The preparation of such a study is necessary in order to support the Company's depreciation rates and schedules through which it recovers its capital investments.

The new study proposes sound revisions to the current depreciation rates. Although the total intrastate expense increase associated with the proposed rates is very small, only totalling slightly more than \$3 million, changed circumstances and the passage of time since the current rates were approved necessitate the revision of many of them.

The basic process that Southern Bell has used to arrive at this conclusion is consistent with its past practices and represents a rational process for developing depreciation rates and schedules. Where appropriate, Southern Bell used historical mortality analysis to determine what changes should be made, if any, in the lives of its assets. This reliance upon life indications was used for many of Southern Bell's accounts and specifically for those which have not been affected by

technological change. For other accounts, Southern Bell used a process that includes the impact of technological changes on a group of assets. These are changes that will render the asset valueless well before it simply "wears" out. Examples of this type of asset include analog circuits which are being replaced by digital circuits and copper cables that are being replaced by fiber.

As an integral part of its analysis regarding prospective changes in the remaining lives of its assets, Southern Bell also relied on its network plans, particularly for the next few years when such plans can be formulated with reasonable accuracy. These network plans were instrumental in the development of rates and schedules for a number of assets, including the determination of the appropriate capital recovery schedule for analog switches.

Southern Bell's analysis, which is detailed and complete, demonstrates that its proposed schedules are reasonable and just and should be approved by this Commission. The failure to do so, or to adopt the completely inadequate rates and schedules that flow from the testimony of other parties to this proceeding, will simply serve to undo all of the progress that this Commission and the Company have made in the past years in developing a forward-looking network that best serves the interests of the Company's ratepayers.

FCTA'S BASIC POSITION: FCTA believes that Southern Bell Telephone Company ("Southern Bell") is required to establish depreciation rates consistent with the principles expressed in Chapter 364, Florida Statutes, and based upon what is economically justified for adequate basic local exchange service. FCTA further believes that Southern Bell has not demonstrated that the network plan which it proposes is economically justified for adequate basic local exchange service.

FCTA further believes that Southern Bell is required to segregate its intrastate investments and expenses between competitive and monopoly services. Order #PSC-92-0317-FOF-TL, Docket #920178-TL directs staff to investigate the cross-subsidy issues in this case. Thus, the allocation of intrastate investments and expenses should be addressed herein.

MCI'S BASIC POSITION: Southern Bell is entitled to reasonable depreciation rates and schedules. Southern Bell's request in this proceeding overstates the amount of depreciation it requires, based on unreasonable assumptions about the rate at which new technology

will be introduced. This overstatement operates to benefit Southern Bell at unnecessary expense to its existing customers.

OPC'S BASIC POSITION: Southern Bell's proposed depreciation rates are based largely on speculation about a hasty deployment of a broadband switched fiber network extending to every subscriber in its territory. Southern Bell's short term predictions from its last case did not materialize, yet the company asks the Commission to once again accept the same type of failed analysis presented three years ago.

The Commission should base depreciation rates on information gleaned from actual retirements over the past three to ten years. This was a period of rapid technological change and provides actual information -- not conjecture and supposition -- about the company's investments and retirements. The proposals of Public Counsel reflect concrete data from this time period and reflect additional depreciation for selected accounts above what would be suggested by historical analysis alone.

The rates suggested by Public Counsel are consistent with the settlement approved by the Commission in GTE Florida's recent depreciation case and should be approved by the Commission in this case.

STAFF'S BASIC POSITION: Staff takes no basic position pending the evidence developed at the hearing. Staff's positions on the issues are preliminary and based on material filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VI. ISSUES AND POSITIONS

ISSUE 1: Should currently prescribed depreciation rates and capital recovery schedules be revised?

This issue has been stipulated to by all parties. The parties agree that the currently prescribed depreciation rates and capital recovery schedules should be revised.

ISSUE 1A: Should the Commission promote the building of a broadband switched fiber infrastructure in Florida's telecommunications network?

SOUTHERN BELL'S POSITION: No. Clearly if placing fiber is uneconomic, the Commission should not simply adopt a policy advocating the placement of such fiber just to have an all-fiber network. The better resolution of this issue is to adopt Southern Bell's policy, which is to place fiber in the network when and where it is economic to do so. Eventually fiber will become the medium of choice in almost all applications based solely on the economics of placing fiber and Florida will have a switched fiber infrastructure based on sound economic principles. No other policy is needed.

FCTA'S POSITION: Unless it is determined that the building of a broadband switched fiber infrastructure in Florida's telecommunications network is the least cost manner of providing adequate basic local exchange service, construction of such a network should not be promoted by the Commission.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The Commission should encourage the various telephone companies, including BellSouth, to adopt modern and efficient network equipment. To the extent that a broadband switched fiber infrastructure may involve elements of the network which are more modern and efficient than the existing network, the Commission should promote their use. The Commission should be neutral in the promotion of a broadband switched fiber infrastructure in Florida, since many of the elements of the proposed network would be highly competitive. In addition, the existence of potential new markets required to fund the building of the broadband switched fiber infrastructure is speculative and questionable. Neither the Commission nor the company should automatically assume that the culmination of a ubiquitous broadband switched fiber infrastructure is feasible, desirable or in the public interest.

Based on the preceding factors, the Commission should not adopt higher depreciation rates which reflect the culmination of a broadband switched fiber network by date certain, i.e. year 2014. If the Commission accepts the proposals of the company to adopt depreciation rates based on the company's estimates of a ubiquitous broadband switched fiber network in place by 2014, it will have

financed the company's strategy to take over the delivery of cable television, remote metering, burglar alarm, video dial tone and a plethora of additional wideband and broadband data services using the rates paid by today's customers. The magnitude of the company's plans demand far more scrutiny, debate and analysis than have been presented in this docket.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 2: What should be the implementation date for new rates and capital recovery schedules?

SOUTHERN BELL'S POSITION: The implementation date of the revised depreciation rates and capital recovery schedules proposed by Southern Bell is January 1, 1992.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The implementation date for new rates and capital recovery schedules should be 1-1-92.

STAFF'S POSITION: January 1, 1992.

ISSUE 3: What reserve transfers between accounts, if any, should be made?

SOUTHERN BELL'S POSITION: Southern Bell sees no need for reserve transfers between accounts at this time. Southern Bell supports a method of adjustments in depreciation rates which will correct any reserve imbalances.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Public Counsel has no position at this time.

STAFF' POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 4: Are the Company network plans including switching retirements planned for 1992-1994 reasonable and economic?

SOUTHERN BELL'S POSITION: Yes. The Company's individual network plans, including switching retirements, are based on a fundamental planning process which is reasonable and economic. The fundamental planning process consists of (1) a periodic review of the network in response to factors such as growth, service, and revenues; (2) a determination of the network elements for which action is required; (3) formulation of alternatives; (4) use of economic studies to compare the alternatives; (5) selection of the best alternative; (6) documentation of the alternative chosen; and (7) internal approval. Only those projects that are economically justified or required to meet mandated service criteria are deployed.

FCTA'S POSITION: Southern Bell has not demonstrated that the network plans for 1992-1994 are reasonable and economic for adequate basic local exchange service.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Public Counsel has no position at this time regarding short term economic replacement of existing switching systems. The company, however, has engaged in the uneconomic placement of new fiber optic transmission systems by using estimated service lives for copper facilities which are arbitrary and improperly chosen in order to dictate fiber over copper deployment (Poucher Rebuttal Pgs. 31-32). The company should be ordered to cease and desist such practices, and the Commission should be aware as it sets new depreciation rates for metallic facilities that some of the existing deployment of fiber is uneconomic.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 4A: Is Southern Bell required to meet the burden of proof to justify the reasonableness of its plans which are used to support its proposed depreciation rates?

SOUTHERN BELL'S POSITION: Yes. Furthermore, Southern Bell has carried its burden of proof with its submission of its 1992 depreciation study.

FCTA'S POSITION: Southern Bell is required under the provisions of Chapter 364, F.S., to justify the reasonableness of its plans for adequate basic local exchange service. Southern Bell has the burden of proof to justify its plans as required by the statute.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The company is required by the rules of this Commission and by Florida Statutes to demonstrate that its proposed rates are reasonable and fair, and therefore is subject to the burden of proof. It is the company's burden to demonstrate that its results, procedures and the underlying assumptions are reasonable, fair and accurate. In particular, since the company chose to ignore accepted and published Commission procedures for the development of major portions of its case, the company must demonstrate the validity and accuracy of the procedures it has utilized.

STAFF'S POSITION: Yes.

ISSUE 5: What are the appropriate lives, net salvages, reserves and resultant depreciation rates for each account?

SOUTHERN BELL'S POSITION: The appropriate lives, net salvages, reserves, and resultant depreciation rates for each account are those found in Southern Bell's 1992 Depreciation Study (Exhibit 1 to the testimony of Jerry L. Wilson).

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The Office of Public Counsel has proposed appropriate lives, net salvage, reserves and resulting depreciation rates for each account in the direct testimony of Public Counsel witness Poucher, Exhibit 1.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 5A: Should Southern Bell be required to justify its depreciation rates based on what is required for providing monopoly services?

SOUTHERN BELL'S POSITION: No. First, some services which are not currently subject to competition will very likely be subject to competition by the end of the economic life of the plant currently being installed. Second, current competitive and non-competitive services are provided using many common facilities and the combined network is engineered to provide the totality of services at the lowest cost for a given level of quality. Finally, there is an inherent error in assuming that depreciation rates might be different for the same equipment in networks subject to less competition. For instance, as digital switches became available, the economic value of analog switches fell and this is true irrespective of whether the switches are used by interexchange carriers in competitive markets or by LECs in less competitive markets.

FCTA'S POSITION: As a matter of law and policy, the Commission is required to establish rates of depreciation that are economically justified for adequate basic local exchange service. To do otherwise would require monopoly services to subsidize competitive services.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The company should be required to justify its depreciation rates based on its total activity.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 5B: Will fiber growth create increased retirement of existing metallic facilities in the future?

SOUTHERN BELL'S POSITION: Yes. As fiber deployment becomes more economic than existing copper facilities, the retirement of existing metallic facilities will increase.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Fiber growth will create increased retirements of metallic facilities in the future, but not to the extent anticipated by the company. Public Counsel's "bedrock" forecast reflects the current rate of metallic facility retirements. Public

Counsel witness Poucher has proposed higher rates of depreciation which anticipate higher than existing levels of retirement in the metallic facility accounts. Public Counsel's rebuttal testimony regarding the company's faulty Fisher-Pry assumptions (pages 27-32) provides some of the major reasons why the company proposals are wrong.

STAFF'S POSITION: Any new technology has the effect of obsoleting the old technology. Fiber growth will not necessarily increase retirements of copper cable facilities in the near future. Fiber facilities placed in the interoffice and feeder areas for new growth will free up existing copper pairs that Southern Bell may be able to reuse as feeder or distribution. However, there will come a time that the freed up cable will not be reused and will be retired. In the distribution area, early fiber growth will be in areas where there are no existing facilities and therefore will have no impact on the near-term retirements of copper facilities. With the development of photon technology and more favorable economics, existing metallic facilities will not longer be viable and will be subject to retirement.

ISSUE 5C: What is the appropriate date, if any, to assume that fiber facilities will reach cost parity with copper cable in the growth of distribution facilities of the Company?

SOUTHERN BELL'S POSITION: There is no specific date when fiber will be the medium of choice to replace copper in every application, but Southern Bell has existing contracts that make fiber more economic than copper for some distribution facilities now. To the extent that this issue seeks to define what is sometimes referred to as a "cross-over" point, the point when fiber in the distribution system makes sense, that time has arrived.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The company currently suggests that fiber will achieved "price parity" with copper deployment in "niche markets" only in late 1992 or early 1993, and projects that price parity will be achieved in 1993-1994.

The company first estimated in its 1986 study that 1987-1988 would be the first year when fiber in the distribution segment

"would be economical to deploy", page 21, Account 242, cable. In the 1990 testimony before the Commission in Docket 890256-TL, company witness R. K. Snelling stated, "In the distribution/loop plant network, we've also demonstrated that fiber is cost justified." (Pgs. 18-19) In addition, Mr. Snelling stated in rebuttal he had signed a "volume deployment contract with a vendor for a fiber to the curb system which is less than the cost of comparable copper facilities....Thus, the time is here." (Pg. 3.)

Having previously erred substantially in its testimony in earlier dockets, company assumptions regarding price parity should be disregarded until the company is able to demonstrate conclusively that it has achieved price parity based on actual data with study methodologies which have been accepted by the Commission. For the purposes of this docket, the Commission should establish depreciation rates for distribution facilities with no assumption of the point when price parity for fiber vs. copper may be achieved.

This issue is extremely important for the outcome of this case, because until such time as fiber deployment for distribution growth is economical, the replacement of existing facilities on an economic basis by fiber is clearly unattainable. All of the company's estimates hinge upon the assumption that it will soon achieve price parity. In the absence of price parity, the company's case falls apart.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 5D: What are the projected time periods for the retirement of existing metallic distribution, feeder and interoffice facilities? (informational only)

SOUTHERN BELL'S POSITION: Virtually all (99%) interoffice copper will be retired by year-end 1998. Virtually all feeder copper will be retired by 2005 and virtually all distribution copper will be retired by 2013.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: The Commission should not assume end dates for interoffice, distribution and feeder facilities. End dates for metallic facilities utilized to provide interoffice circuits are not appropriate due to the company practice of reclassifying or reusing interoffice metallic facilities displaced by fiber for feeder or distribution use, or in some cases for interoffice use. End dates for total displacement of existing metallic feeder cables should not be assumed for the same reasons. End dates for distribution cannot be calculated until price parity between new copper and new fiber is demonstrated universally, not simply in niche markets. In addition, the company must be able to demonstrate that replacement of 100% of the universe is feasible in order to assume or forecast an end date to this technology, irrespective of the methodology used.

Public Counsel witness Poucher has proposed the use of projected lives for the various metallic facilities used to provide interoffice, feeder and distribution functions.

STAFF'S POSITION: The decade of the 2010's is the time period projected by other companies when all embedded copper cable facilities will be retired. Replacement of these facilities will either be copper or fiber depending on the economics at the time of retirement.

ISSUE 5E: Is Fisher-Pry substitution analysis appropriate for use in establishing estimated lives for publicly regulated utility investments?

SOUTHERN BELL'S POSITION: Yes. Studies and analyses of technological substitution have been performed which confirm that substitutions of new technologies in the telephone industry follow the Fisher-Pry pattern. The basic principle of Fisher-Pry, that the rate of adoption of a new technology is proportional to the fraction of the old technology still in use, is equally applicable to regulated and non-regulated industries. While regulation may affect the rate of substitution, it does not affect the shape of the substitution pattern; i.e., the S-shape curve.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Use of Fisher-Pry substitution analysis may be helpful, in the future, in analyzing life assumptions for utility investments. However, existing documentation and the Fisher-Pry formulas have not yet stood the tests of time and thorough examination which should be required of any methodology accepted by the Commission for determining remaining lives. The proponents of Fisher-Pry have produced examples of technological substitutions which fit the formula, thus claiming validity for using the formula to forecast remaining lives. What has not been presented are the other examples of technological substitution which do not fit the formula.

STAFF'S POSITION: Fisher-Pry substitution analysis is a mathematical formula used to determine the substitution rate of new technology for old technology. It is one of several forecasting tools that can be used in the projection of remaining lives. As with all forecasting tools, however, the input assumptions determine the results.

ISSUE 5F: Is Fisher-Pry substitution analysis appropriate for use in estimating lives for outside plant cable accounts, circuit accounts and central office switching accounts?

SOUTHERN BELL'S POSITION: Yes. These accounts are ones which are directly affected by technological obsolescence. National studies have been performed which indicate that Fisher-Pry is appropriate in estimating lives for cable, circuit, and central office switching equipment. Southern Bell's own life cycle analysis is consistent with these national studies.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Fisher-Pry analysis is not appropriate for establishing remaining lives of outside plant cable accounts because the Fisher-Pry formulas are too broad and ill-defined to produce reasonably accurate forecasts for proposed depreciation rates for individual company accounts. Fisher-Pry formulas were originally developed based on broad, industry-wide events, most of which involved basic manufacturing processes. As Public Counsel witness Poucher stated, "The difficulty is in taking a broad concept such as Fisher-Pry and asking it to do too much, or selectively choosing the procedure only when it suits your intended

purpose." (Rebuttal, Pg. 24) No model, no engineer and no forecaster can reliably predict 10 to 20 years out into the future, yet that is exactly what the Fisher-Pry analysis proposes.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 5G: Has Southern Bell appropriately applied Fisher-Pry substitution analysis in the establishment of its proposed rates for depreciation?

SOUTHERN BELL'S POSITION: Yes. Southern Bell's application of Fisher-Pry substitution analysis is consistent with the procedures surrounding the Fisher-Pry concept. The adaptations used by Southern Bell to the initial and final stages of substitution are consistent with similar adaptations by others. In addition, the use of near-term deployment plans is a valid adaptation of Fisher-Pry analysis. Altogether, Southern Bell's analysis is a reasonable application of Fisher-Pry analysis.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: BellSouth has improperly utilized Fisher-Pry analysis to project end dates for technology because:

- (1) the outside plant cable accounts are not homogeneous,
- (2) the substitution analysis of the company is not based on true substitution for metallic facilities, and is erroneous in the case of switching analysis,
- (3) the company improperly included the entire universe of metallic circuits in its substitution analysis, and
- (4) the existing formulas for selection of fiber over copper are slanted toward uneconomic investment in fiber technology. (Poucher Rebuttal Pg. 32)

STAFF'S POSITION: It appears that Southern Bell has correctly applied the results of the Fisher-Pry formula whether or not those results are logical and reasonable.

ISSUE 6: What are the appropriate capital recovery and amortization schedules?

SOUTHERN BELL'S POSITION: In its filing, Southern Bell has proposed capital recovery schedules for switching equipment. This equipment is retired as large, discrete, individually planned units and using capital recovery schedules for any assets other than large, discrete, individually planned units would be unnecessarily cumbersome and inappropriate. Continuation of the existing amortization schedules for general support accounts and small value items is also considered appropriate by Southern Bell.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Public Counsel proposes that the ESS switching systems scheduled for near-term retirement be amortized in a capital recovery schedule.

STAFF'S POSITION: No position at this time pending completion of discovery and presentation of evidence at the hearing.

ISSUE 6A: If the Commission should decide to amortize retirements, what is the appropriate time period for the amortization and what basis should be used to spread the amortized accounts?

SOUTHERN BELL'S POSITION: As stated in response to Issue 6, Southern Bell's position is that switches should be subject to a net plant type capital recovery schedule. The schedule that Southern Bell has proposed is for three years, and recovery for the assets not retiring in the next three years is accomplished through the use of a depreciation rate, just as for Southern Bell's other assets.

FCTA'S POSITION: No position at this time.

MCI'S POSITION: No position at this time.

OPC'S POSITION: Public Counsel proposes that the analog switching accounts be amortized over a three year period. In order to smooth the impact of proposed capital recovery schedules on the books of the company, the total recovery schedule should be amortized equally over the three year period, limited by the company's actual

retirement experience. In other words, should the company's scheduled retirements fall behind the recovery schedule, the amount booked should also be reduced accordingly.

STAFF'S POSITION: The net investments associated with prudent perceived near-term retirements should be recovered over the remaining period the related assets will be serving the public.

VII. EXHIBIT LIST

<u>WITNESS</u>	<u>PROFFERED</u> <u>BY</u>	<u>ID NO.</u>	<u>DESCRIPTION</u>
Jerry L. Wilson	So. Bell	JLW-1	Southern Bell's 1992 Depreciation Rate Study (Revised)
		JLW-2	Summary of Revisions to Depreciation Study filed May 1, 1992
		JLW-3	Summary of Company Proposal
		JLW-4	Example of Depreciation Methodology
		JLW-5	Summary of Basis for Proposal
		JLW-6	Letter from J. L. Wilson to Donna R. Searcy, Secretary FCC, dated July 7, 1992
		JLW-7	FR Depreciation Expense vs. Gross Construction Expenditures

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>ID NO.</u>	<u>DESCRIPTION</u>
Jerry L. Wilson	So. Bell	JLW-8	Responses to Staff's Second Set of Interrogatories: 43-51, 52a, 52c, 52d, 53a, 53b, 53d, 53k, 54b-54f, 55a, 55b, 55f, 56a, 56b, 56e, 56h-56l, 57, 58d, 58e, 59, 60b-60g, 61-65
Ralph C. Lenz	So. Bell	RCL-1	Curriculum Vitae
H. E. Gray, Jr.	So. Bell	HEG-1	Switch Replacements 1992- 1994
	Staff	HEG-2	Responses to Staff's First Set of Interrogatories: 2, 4, 7, 9, 10, 12, 16, 18, 19, 20, 21, 24, 25, 26, 27, 28, 30, 38, 39
			Responses to Staff's Second Set of Interrogatories: 52b, 52e, 53e, 54a, 55c, 55d, 55e, 56c, 56f, 58f, 58g, 58k, 58n, 58p
			So. Bell's Responses to OPC's First Set of Interrogatories 1 - 6
Steve Barreca	So. Bell	SLB-1	Technology Category/ Average Remaining Life
		SLB-2	SPC for Electro- Mechanical Switching
		SLB-3	Digital vs. Analog Switching
		SLB-4	Average Projection Lives of Digital Switching and Circuit Equipment

<u>WITNESS</u>	<u>PROFFERED</u> <u>BY</u>	<u>ID NO.</u>	<u>DESCRIPTION</u>
Steve Barreca	So. Bell	SLB-5	Florida Underground Cable Metallic
		SLB-6	Life Cycle Resulting from the Florida Office of Public Counsel's Proposed Curve Shape and 39 Year Projection Life for Underground Cable Metallic
	Staff	SLB-7	Responses to Staff's First Set of Interrogatories: 29, 31, 32, 37 Responses to Staff's Second Set of Interrogatories: 53c, 53f-53j, 56d, 56g, 58j, 58l, 58m, 58o, 58q, 66-71
William E. Taylor	So. Bell	WET-1	Alternative Measures of Telephone and Telegraph Plant and Equipment Investment
		WET-2	U.S. Network Modernization Year-End 1989
		WET-3	Capital Recovery for Regulated and Unregulated Firms
		WET-4	Welfare Losses from Inefficient Entry
		WET-5	Curriculum Vitae
R. Earl Poucher	OPC	REP-1	Statements

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>ID NO.</u>	<u>DESCRIPTION</u>
R. Earl Poucher	OPC	REP-2	Initial Position of Network
		REP-3	BellSouth Positions
		REP-4	SBT vs. BTI Fiber to the Curb
		REP-5	Response to Action Items
		REP-6	Deployment of Fiber-In-The-Loop
		REP-7	Florida Capital Recovery Review
		REP-8	Testimony of Gary W. Hight
		REP-9	Metallic vs. Fiber Cable Cost
		REP-10	Metallic vs. Fiber Costs
		REP-11	Metallic Cable Costs
		REP-12	Copper vs. Carrier Costs
		REP-13	Loop Deployment Guidelines
		REP-14	Construction Dollars vs. Depreciation
		REP-15	Projected Depreciation Expense
		REP-16	Company Position Telco/Cable Cross Ownership
		REP-17	Testimony of Dr. R.M.G. Frame
		REP-18	Testimony of Dr. R.M.G. Frame
		REP-19	Cable Reuse Policy

<u>WITNESS</u>	<u>PROFFERED</u> <u>BY</u>	<u>ID NO.</u>	<u>DESCRIPTION</u>
R. Earl Poucher	OPC	REP-20	Charts on Depreciation
James W. Currin	OPC	JWC-1	Statement A
		JWC-2	Parameter Report
		JWC-3	Statement B
		JWC-4	Depreciation Study

Staff has not yet finished its list of exhibits which it intends to utilize in this proceeding. Staff will supply a list of the remainder of its exhibits to all parties prior to the hearing.

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

All parties agreed to stipulate to Issue 1 at the Prehearing Conference. The parties agree that the currently prescribed depreciation rates and capital recovery schedules should be revised.

IX. PENDING MOTIONS

Southern Bell

The following motions are pending:

- (1) Southern Bell's Request for Confidential Classification and Motion for Permanent Protective Order filed on August 21, 1992;
- (2) Southern Bell's Request for Confidential Classification and Motion for Permanent Protective Order filed on September 10, 1992;
- (3) Southern Bell's Request for Confidential Classification and Motion for Permanent Protective Order filed on September 24, 1992; and

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- (4) Southern Bell's Request for Confidential Classification and Motion for Permanent Protective Order filed on September 25, 1992.

It is therefore,

ORDERED by Commissioner J. Terry Deason, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner J. Terry Deason, as Prehearing Officer, this 21st day of October, 1992.


J. TERRY DEASON, Commissioner
and Prehearing Officer

(S E A L)

PAK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida

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Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.